Capital Gains and Losses

Capital Assets
Most property an individual owns and uses for personal or investment purposes is a capital asset. For example, a house, furniture, car, stocks, and bonds are capital assets.

Noncapital Assets
A capital asset is any property held by an individual except the following.
- Stock in trade or other property included in inventory or held mainly for sale to customers.
- Accounts or notes receivable acquired in the ordinary course of a trade or business for services rendered or from the sale of stock in trade or other property held mainly for sale to customers.
- Depreciable property used in a trade or business, even if it is fully depreciated.
- Real estate used in a trade or business.
- Copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property created by the individual’s personal efforts, prepared or produced for the individual, or received from a person who created the property.
- Supplies regularly used in a trade or business.

Investment Property
Investment property is property held for the production of income or anticipated appreciation in value. A gain or loss from the sale or exchange of investment property, such as stocks and bonds, is a capital gain or loss.

Holding Periods
Capital gains and losses must be separated according to how long the individual held or owned the property.

Short-Term
The holding period for short-term capital gains and losses is one year or less.

Long-Term
The holding period for long-term capital gains and losses is more than one year.

Inherited Property
Inherited property is considered held long term regardless of actual time held by the beneficiary.

Securities Traded on an Established Market
For securities traded on an established securities market, the holding period begins the day after the trade date the securities are purchased and ends on the trade date the securities are sold.

Mutual Funds
A mutual fund is a regulated investment company generally created by “pooling” funds of investors to allow them to take advantage of a diversity of investments and professional management.

Mutual Fund Basis
Shares in a mutual fund are generally acquired at various times, in various quantities, and at various prices. When shares of a mutual fund are sold, it is necessary to determine which shares were sold and the basis of
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those shares. Individuals can use either a cost basis or an average basis to figure gain or loss.

Cost Basis
Cost basis can be used only if the individual did not previously use an average basis for a sale of other shares in the same mutual fund. To figure cost basis, use one of the following methods.

- **Specific share identification.** The adjusted basis of specific shares can be used to figure gain or loss if those shares are adequately identified. Adequate identification requires the individual to:
  1) Specify to a broker or other agent the particular shares to be sold at the time of the sale, and
  2) Receive confirmation in writing from the broker or agent within a reasonable time of the specification of the particular shares sold.

- **First-in first-out (FIFO).** If the shares sold cannot be identified, the oldest shares owned are considered to be sold first.

Average Basis
Average basis is figured by dividing the total cost of shares owned by the total number of shares owned. Once average basis is used to report gain or loss from a mutual fund, it must be used for all accounts in the same fund. However, an individual may use a different method of figuring the basis for other mutual funds, even those within the same family of funds.

Transfer or Exchange of Mutual Fund Shares
Any exchange of shares in one fund for shares in another fund is treated as a sale. This is true even if shares in one fund are exchanged for shares in another fund within the same family of funds.

Reinvested dividends are dividends paid that the shareholder opts to use to buy more shares of stock rather than receive the dividends in cash. The dividends are reported as income, and the shares of stock owned and cost basis increase.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

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